

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 7817**

**BILL NUMBER: HB 1301**

**DATE PREPARED: Jan 3, 2001**

**BILL AMENDED:**

**SUBJECT:** Insurance rate reduction for CAFS fire protection.

**FISCAL ANALYST:** Jim Landers

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**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** The bill requires that a homeowners insurance rate filed by an insurer with the Insurance Commissioner provide for an appropriate reduction in premium charges for a homeowners policy if the dwelling covered by the policy is located in a city, county, town, township, or fire protection district that is equipped with firefighting equipment using compressed air foam system (CAFS) technology. The bill authorizes the Insurance Commissioner to adopt rules specifying: (1) The extent to which a rate must be reduced when CAFS technology is employed and (2) the extent to which CAFS technology must be employed locally for premium reductions to apply.

**Effective Date:** July 1, 2001.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** *Fiscal Impact:* The bill potentially could have a minimal impact on revenues from the Insurance Premium Tax and the Fire Insurance Tax. The impact would depend upon the following factors: (1) The number of local government units in the state that currently possess or eventually acquire CAFS technology; (2) whether consideration of CAFS in the rating process actually leads to reductions in premiums for policy holders in localities employing CAFS; and (3) the magnitude of any CAFS-related premium reductions if, in fact, reductions occur.

***Background:*** Communities throughout the United States are rated relative to their fire-fighting capabilities by the Insurance Services Office (ISO). The rating schedule used by ISO (referred to as the Fire Suppression Rating Schedule (FSRS)) ranges from a score of one for the highest level of fire protection to a score of 10 indicating no fire protection at all. The FSRS rating reflects, among other factors, the quality of a community's fire response system, its fire stations and equipment, and its water supply. Ultimately, a community's FSRS rating may be utilized by an insurance company as one of several factors in setting a premium for a homeowner in that community. However, insurance companies may set premiums in

accordance with ranges on the FSRS schedule. Consequently, an improvement of, for instance, one or two points on the FSRS schedule for a community because it has acquired CAFS technology may not translate into lower premiums for community residents.

The Insurance Premium Tax is imposed on gross premiums received by foreign insurance companies and domestic insurance companies (that do not elect instead to pay the gross income tax) from policies covering risks in Indiana excluding reinsurance premiums, dividends paid to resident insureds, and premiums returned. The Fire Insurance Tax is imposed on gross premiums written on fire risks in Indiana excluding reinsurance premiums and premiums returned.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Insurance.

**Local Agencies Affected:**

**Information Sources:** Frey, Joe (1999) Homeowners premiums fluctuate with community's fire-fighting ability. *Insure.com*. <http://www.insure.com/home/fireprotection.html>.